
Principal Distribution Certificates

INTRODUCTION

Principal distribution certificates offer credit unions a new way to market savings products to members with higher balances. With principal distributions, members receive periodic income in the form of checks or transfers during the term of the certificate. Members looking for a way to incrementally receive funds from their accounts will appreciate this service.

Credit unions offer this option by configuring Certificate Types that are designed to offer the principal distribution feature. (You can select to require or make it optional in the configuration.) Then when a certificate of this Type is opened, the MSR simply enters the principal distribution amount and whether the member wants to receive funds in the form of a check or as a transfer to a different sub account. Principal distribution funds are disbursed separately from dividend payments so members even have the option of disbursing the funds using different methods. For example, the member could transfer their dividend payments to another (checking) account and send the principal distribution disbursement in the form of a check to their broker.

CONTENTS

CERTIFICATE PROCESSING	2
NOTE ON ONLINE BANKING	3
CONFIGURATION CONSIDERATIONS	4
CERTIFICATE TYPE DEFAULT RENEWAL CODE	4
OPENING A CERTIFICATE	6
CERTIFICATE TYPES REQUIRING PRINCIPAL DISTRIBUTIONS	6
NOTE ON CHANGING THE PAY TO: ADDRESS FOR CHECK DISBURSEMENT	6
CERTIFICATES NOT REQUIRING PRINCIPAL DISTRIBUTIONS	7
TRANSACTION HISTORY, INQUIRY AND UPDATE SCREENS	8
REPORTS	10

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CERTIFICATE PROCESSING

Principal distribution processing occurs during dividend processing, with the posting of principal distributions (Tran Code 43, Tran Type 38) directly following the payment of dividends (Tran Code 43, Tran Type 39).

When a certificate is opened, its default “Principal distribution method” will default to the “default renewal code” of the Certificate Type. Only disbursement methods of *Check* or *Transfer to* are allowed as disbursement methods for principal distributions – this indicates how the funds will be disbursed to the member. If the “Principal distribution method” of *Transfer to* is selected, a transfer account must be entered. (This account is indicated by the *Trnsr/rdmpt/prin dist acct* field in the Account Update screen.)

- Dividend disbursements on the other hand are processed according to a separate dividend disbursement code and are transferred to a separate dividend transfer account.

If dividends and principal distributions are both disbursed by check, they are mailed as separate checks. Both checks are mailed to the default address of the membership, the primary owner’s address. The *Pay To:* address can be changed when opening the Certificate or in the Member Account Update; however, both dividend and principal distribution checks are sent to the same address. (If a dividend check is set to be mailed to an alternate address, a principal distribution check will automatically also be sent there as well.) When **Tool #631 Print Auto/Mail Check Audit List** is used to select the checks to be printed, the “Certificate dividend check” checkbox also controls the selection of the principal distribution checks. Once this option is selected, **Tool #632 Print Auto/Mail Checks** then prints both types of checks.

Upon maturity, any funds remaining in a principal distribution certificate that have not been disbursed will be paid in a final lump sum disbursement, via check or transfer (according to the default renewal code of the certificate). This check is also sent to the primary address on the membership (or other Pay To: address if indicated by the certificate).

There are some instances where principal distributions will not be disbursed. If at any time there is not enough money in the certificate to make the principal distribution disbursement, the funds will remain in the certificate and an exception will be printed to the Exception report. Additionally, if the certificate’s funds are frozen for withdrawals (freeze codes 1 and 3), principal distributions will not be posted, but will also appear on the Exception report. Refer to page 11 for an example of the Exception report.

It is not recommended that a certificate with a principal distribution also be used to secured loan or any other account. Principal distributions will continue as usual, however, as long as the distribution is over and above the secured amount. In rare cases where dispersing the principal distribution would take the secured funds negative, the principal distribution will not be dispensed and will appear in the exception report mentioned in the previous paragraph.

NOTE ON ONLINE BANKING

Certificate products with principal distributions are not supported at this time via **It's Me 247**. There is no way to disclose special details pertinent to this sort of account online, and there is no place for the member to indicate a principal disbursement amount. It is not recommended that credits union offers these products on online rate boards, or that they allow members to open this type of certificate online.

CONFIGURATION CONSIDERATIONS

Whether a certificate allows for the principal distribution feature is dependent on its Certificate Type configuration.

The *Allow principal distribution* selection at the top of the Certificate Type configuration screen determines whether principal distributions are required, allowed, or blocked.

There are three options:



- *Allowed (A)* – When the certificate is opened, the MSR has the option of setting up a principal distribution or not. The feature is allowed but is not required. This might be used if the credit union wants to use an existing Certificate Type for its members wanting this service. (In this case, it is recommended that the default renewal code for the Type be “Transfer to” or “Check” for this Type to function correctly when opening a certificate with a principal distribution.)
- *Required (R)* – All certificates created with this Type will require the entry of a principal distribution amount. Credit unions may choose to create specific Certificate Types configured in this manner for use only with their principal distribution offering.
- *Blocked (N)* – This is the default for all Certificate Types. Principal distributions are not allowed for certificates created with this Type.

CERTIFICATE TYPE DEFAULT RENEWAL CODE

At certificate open, the default renewal code of the Certificate Type is used as the default for the principal distribution disbursement method. The default renewal code of the Type is also used to determine how to handle the payment of funds remaining in the account at the end of its term. Therefore, Types designed for use with principal distributions should have a renewal code of either *Transfer to* or *Check*. Additionally, always be sure to uncheck the box in the Certificate Type configuration that allows members to change the renewal code online.

Certificate Type Configuration

This selection determines if principal distributions are allowed, required, or not allowed. Here *Required* is selected.

Certificate Types for principal distributions should have a *Default renewal code* of either *Transfer to* or *Check* to function correctly at certificate open.

Members must not be allowed to change the Renewal Code online. This box must be unchecked for Types allowing or requiring distributions

Session 0 CU*BASE GOLD Edition - ABC TESTING CREDIT UNION

File Edit Tools Help

Certificate of Deposit Maintenance

Certificate type 12
 Corp ID 01 ABC TESTING CREDIT UNION
 Application CD Description 30 MONTH CERTIFICATE
 Allow principal distributions Allowed Required Blocked

Certificate Length		Certificate Penalty		General Ledger	
Days	<input type="text"/>	Penalty code	<input type="text"/>	Certificate	908.02
- Or -		Days	<input type="text"/>	Premium penalty	131.00
Months	30	Penalty grace	10	Accrued dividend	830.20
				Dividend expense	340.50

Options		Renewal	
<input type="checkbox"/> IRA CDs flag		Default renewal code	<input type="radio"/> Manual <input type="radio"/> Auto Renew <input checked="" type="radio"/> Transfer to <input type="radio"/> Check
<input checked="" type="checkbox"/> Add funds to CDs		Default renewal CD type	<input type="text"/> (blank = same CD type)
<input checked="" type="checkbox"/> Report dividends to IRS		<input type="checkbox"/> Allow member to change renewal code on existing account via online banking	
Laser certificate form	CD30	<input type="checkbox"/> Allow member to bump the current rate	00 times during the CD term

Dividend Rate(s)			
Minimum	5,000.00	Maximum	9,999,999.99
Rate		Rate	1.740
Minimum	0.00	Maximum	0.00
Rate		Rate	0.000
Minimum	0.00	Maximum	0.00
Rate		Rate	0.000
Minimum	0.00	Maximum	0.00
Rate		Rate	0.000
Minimum	0.00	Maximum	0.00
Rate		Rate	0.000

Suspend
 Skip
 Delete
 Checklist

FR (3956) 7/31/13

OPENING A CERTIFICATE

CERTIFICATE TYPES REQUIRING PRINCIPAL DISTRIBUTIONS

If the Certificate Type “Requires” principal distributions, the corresponding fields will appear automatically in the *Should the Member Receive a Principal Distribution* section. The Principal disbursement method is flooded with the default renewal code of the Certificate Type. In the example above, this was Transfer; however, “Check” could also be selected at this time. If the Transfer is selected, the Transfer account must be entered. In all cases, the principal distribution amount must be entered. This is not system generated; the credit union enters an amount based on its own policy.

Certificate Open – Principal Distributions Required

Session 0 CU*BASE GOLD Edition - ABC CREDIT UNION
File Edit Tools Help

Create/Open New Certificate

Account # CD type 03 6 MONTH CERTIFICATE MARY M MEMBER
CD amount 500.00 123 MAIN STREET
Issue date Dec 12, 2013 Maturity date Jun 12, 2014 [MMDDYY] ANYCITY MI 49000
 Joint owner/beneficiaries

How Should the Dividends be Paid?

Dividend disburse code Addback
Dividend payment/transaction frequency Monthly
Dividend rate 0.050 %
Dividend variable rate code

Should the Member Receive a Principal Distribution?

Yes, the member should receive a principal distribution (required)
Principal amount to be distributed to the member each dividend payment period 196.22
Principal distribution method Transfer Principal distribution account

i Upon maturity, certificate will make one final principal distribution as instructed above and close.

Post Skip Procedures Pay to
FR (1511) 12/12/13

This Certificate Product's default renewal code is Transfer. A MSR could change this to Check, the only other available option. Since Transfer is selected, the MSR must enter the transfer account.

NOTE ON CHANGING THE PAY TO: ADDRESS FOR CHECK DISBURSEMENT

If “Check” is selected as the disbursement method, the check will be sent to the address of the Primary member on the membership – unless the Pay To: address has already been changed, for example, to send a dividend check to an alternate address. (Both dividend and principal distribution checks are mailed to the same address.) To change the Pay To: address use F22-Pay To from the screen shown above and change the address to the desired address. This address change can also be made on the Account Update screen.

- By changing this address, the member could select to send their principal distribution payments to a broker or other person.

CERTIFICATES NOT REQUIRING PRINCIPAL DISTRIBUTIONS

Certificate Open – Principal Distributions Allowed

Session 0 CU*BASE GOLD Edition - ABC CREDIT UNION

File Edit Tools Help

Create/Open New Certificate

Account # [redacted] - 301 CD type 02 3 MONTH CERTIFICATE

CD amount 500.00

Issue date Dec 12, 2013 Maturity date Mar 12, 2014 [MMDDYY]

MARY M MEMBER
123 MAIN STREET
ANYCITY MI 49000
 Joint owner/beneficiaries

How Should the Dividends be Paid?

Dividend disburse code Addback

Dividend payment/transaction frequency Monthly

Dividend rate 0.050 %

Dividend variable rate code

Should the Member Receive a Principal Distribution?

Principal amount to be distributed to the member each dividend payment period 0.00

Principal distribution method [dropdown]

How Should the Certificate be Handled at Maturity?

Renewal code Auto Renew

Renewal CD type 02

Renewal incentive 0.000 %

Renew only this amount 0.00 and put the rest in [redacted] - 000

Post Skip Procedures Pay to

FR (1511) 12/12/13

If the certificate “allows” principle distributions, the MSR just needs to fill in the principal distribution fields.

Certificate Type Configuration Principal Distributions Not Allowed

Session 0 CU*BASE GOLD Edition - ABC CREDIT UNION

File Edit Tools Help

Create/Open New Certificate

Account # [redacted] - 301 CD type 05 12 MONTH CERTIFICATE

CD amount 500.00

Issue date Dec 12, 2013 Maturity date Dec 12, 2014 [MMDDYY]

MARY M MEMBER
123 MAIN STREET
ANYCITY MI 49000
 Joint owner/beneficiaries

How Should the Dividends be Paid?

Dividend disburse code Addback

Dividend payment/transaction frequency Monthly

Dividend rate 0.100 %

Dividend variable rate code

How Should the Certificate be Handled at Maturity?

Renewal code Auto Renew

Renewal CD type 05

Renewal incentive 0.000 %

Renew only this amount 0.00 and put the rest in [redacted] - 000

Post Skip Procedures Pay to

FR (1511) 12/12/13

If the Certificate Type does not allow for principal distributions, the principal distribution fields will not appear on the screen.

TRANSACTION HISTORY, INQUIRY AND UPDATE SCREENS

The Transaction History screen lists the distributions as a separate line item, separate from the dividend amount. Both are posted at the same time.

Transaction History Screen

Business Date	Activity Date	Activity Time	Amount	IRA Cd	Balance	Description	Transfer Acct	ID	Sup	Print Receipt
1/14/13	1/14	01:02	2,487.36		1,000.97	DIVIDEND EARNED		90	N	
1/14/13	1/14	01:02	2,487.36		1,000.00	DIVIDEND TRANSFER	-300	90	N	
2/14/13	2/14	02:48	0.09		990.00	PRINCIP DISTRIB	-300	90	N	

Both the Inquiry and Update views show the principal distribution information.

Inquiry

Account #	Account Type	CD Type	IRA Plan Type	Principal Distributions are Required	Rate Bumped	Current Balance	Current Rate	Daily Accrual	Original Purchase	Last Rollover Balance	Partial Renewal Amount	Principal Distribution Amount	Renewal Code	Trnsfr/redempt/princ distrib account	Term Dividend Earned	Term Dividend Withdrawn	Available Dividend
MARY M MEMBER	301 CD	03	6 MONTH CERTIFICATE	Required	0 of 0 times	500.00	0.050	0.00	500.00	0.00	0.00	200.00	3	Check	0.00	0.00	0.00

Update

Session 0 CU*BASE GOLD Edition - Account Information Update

File Edit Tools Help

Account Information Update Certificate of Deposit

Account # [REDACTED] Last maintenance date **Jan 14, 2013**
 Current balance **5,000.00**
 Account opened by MSR [REDACTED]
 SSN/TIN [REDACTED]

Imaging Solutions Scan e-Document
View e-Document

Application CD	CD type 05	Statement indicator 0	Accrued club benefits 0.00
IRA plan <input type="checkbox"/>	G/L acct 905.00	CD branch # 02	YTD club benefits 0.00
# Joint owners 0	# Beneficiaries 0	Renewal CD type 05	Dividend calc type C
Original purchase date Jan 14, 2013 [MMDDYYYY]		CD penalty code <input type="checkbox"/>	Dividend payment freq M
Last renew/roll Jan 14, 2013 [MMDDYYYY]		CD penalty days 000	Dividend payment type I
Current term mature Jul 14, 2013 [MMDDYYYY]		Term dividend paid 173.74	Current dividend rate 1.500
Dividend paid date 00000000 [MMDDYYYY]		Term dividend W/D 0.00	Rate after maturity 0.00
Dividend transfer date 00000000 [MMDDYYYY]		Total deposit 0.00	Variable rate group <input type="checkbox"/>
Dividend accrual date Jan 14, 2013 [MMDDYYYY]		Part renew amount 0.00	Renewal incentive 0.000
Div disburse code Addback		Dividend accrued 0.174	Rate bumped 00 of 00 times
Div transfer frequency M		Dividend paid: Q1 46.63	
Dividend transfer 00000000 000		Q2 0.00	<input type="button" value="Set Div Checks Pay To/Address"/>
Allow principal distribution Not allowed		Q3 0.00	
Renewal code Auto-renew		Q4 0.00	
Trnsfr/rdmpt/princ dist acct 00000000 000		Last roll balance 0.00	
Principal dist amt 0.00		Original purchase amt 5,000.00	
Freeze 0 = All activity allowed		Annual backup withheld 0.00	
<input type="checkbox"/> Passback process ID		Penalty amount 0.00	
		Secured balance 0.00	

Jt Owner/Beneficiary Checklist Div Check Pay to

WU (2451) 3/21/16

The certificate distribution amount or distribution account is updated here.

Changes to the principal distribution fields in Update require Tier 2 Security (as shown above).

As mentioned earlier, principal distribution checks are mailed to the same address as dividend checks. This Pay To: address is by default to the primary address on the account. By clicking the Set Div Checks Pay To/Address button, a credit union employee can change the Pay To: address for checks that are distributed by principal distribution

- NOTE: This address is also used for the distribution of dividend payment checks.

REPORTS

Certificate Product Configuration Report

A CU*BASE Report, the Certificate Product Configuration Report, lists whether a Certificate Type allows principal distributions.

Print CD Configuration Report (Tool #635)

Whether the CD allows principal distributions is listed here.

1/05/11 10:56:40		TEST CREDIT UNION				LCDCFG		Page 1							
RUN ON 1/05/11		CERTIFICATE PRODUCT CONFIGURATION REPORT						User							
		AS OF 1/05/11													
Corporate ID - ALL CORPORATIONS															
CD APPLICATIONS															
APPL															
TYP	DESCRIPTION	FREQ	TYPE	PMT	LOW	HIGH									
CD	CERTIFICATE	M	C	I	300	350									
CQ	CERTIFICATES - FC	Q	C	F	300	325									
CR	IRA MARKET INDEX CERTIFICATE	R	C	I	400	450									
IR	IRA CERTIFICATE	M	C	I	400	450									
SS	2009 SAVE TO WIN	Q	C	I	45	45									
ST	2010 SAVE TO WIN	Q	C	I	46	46									
CD TYPES															
TY	CO	APL	IRA	PR	DIST	DESCRIPTION	BUMP	-LENGTH-	----PENALTY----	----	GENERAL LEDGER----	ADD	LAST		
01	01	CD	N			7 MONTH CERTIFICATE	03	7		10	90802 13100 83020 34050	Y	Y CD07		
02	01	CD	N			3 MONTH CERTIFICATE	01	3		10	90802 13100 83020 34050	Y	N CD02		
03	01	CD	A			6 MONTH CERTIFICATE	02	6		10	90802 13100 83020 34050	Y	N CD02		
04	01	CD	N			9 MONTH CERTIFICATE	00	9		10	90802 13100 83020 34050	Y	N CD02		
05	01	CD	N			12 MONTH CERTIFICATE	00	12		10	90802 13100 83020 34050	Y	N CD02		
06	01	CD	N			18 MONTH CERTIFICATE	00	18		10	90802 13100 83020 34050	Y	N CD02		
1/05/11 10:56:40										TEST CREDIT UNION		LCDCFG		Page 4	
RUN ON 1/05/11										CERTIFICATE PRODUCT CONFIGURATION REPORT				User ALYCIAM	
										AS OF 1/05/11					
Corporate ID - ALL CORPORATIONS															
CD	TYPE	DESCRIPTION	RATE	MINIMUM	MAXIMUM										
71	3	MONTH IRA CERT	.050	500.00	99999.99										
72	6	MONTH IRA CERT	.050	500.00	99999.99										
73	9	MONTH IRA CERT	.100	500.00	99999.99										

Two CUSPY Daily Reports assist credit unions who have certificates allowing principal distributions. These reports are generated with the dividend posting reports at Beginning of Day.

Certificate Principal Distribution Report

1/06/11 10:00.53	TEST CREDIT UNION					TBCDTB6	PAGE	1
RUN ON 1/06/11	CERTIFICATE PRINCIPAL DISTRIBUTION REPORT						USER	
							** PRIN DIST	*
ACCOUNT	CD TYPE	CD	BALANCE	PRIN DIST AMT	RESULTING BALANCE	CERTIFICATE PROCESS	PRIN DIST METH	TRANSFER ACCT NO
45001-300	25		980.00	10.00	970.00	PRIN DIST TRANSFERRED	2	45001-000
TOTAL PRIN TRANSFERRED				10.00 /	1 ACCOUNTS			
TOTAL PRIN PD BY CHECK				.00 /	0 ACCOUNTS			
GRAND TOTAL				10.00 /	1 ACCOUNTS			
END OF REPORT								

The Certificate Principal Distribution Report (TBCDTB6) lists the principal distribution information.

Certificate Processing Exceptions

The Certificate Processing Exceptions Report (TBDTB3) lists, among other exceptions, instances when there were not enough available funds to process the principal distribution payment. This may occur due to insufficient funds, funds being frozen, or because funds are being used as secured funds. Refer to page 2.

1/05/11 15:06.35	TEST CREDIT UNION					TBCDTB3	PAGE	1	
RUN ON 1/05/11	CERTIFICATE PROCESSING EXCEPTIONS						USER		
ACCOUNT NO.	TRANS ID	TR DATE	C/D AMOUNT	TRAN TYPE	DEPOSIT	WITHDRAW	PREVIOUS BALANCE	CURRENT BALANCE DESCRIPTION	TRACER
45001-300	SH-00034	1/05/11	980.00		** FUNDS NOT AVAILABLE FOR DISTRIB **		980.00	PRINCIPAL DISTRIB	45001-0
END OF REPORT									